

## ECB hikes rates by 75bp

The ECB just announced another jumbo rate hike by 75b basis points, bringing interest rates in the eurozone very close to neutral levels



The ECB just hiked interest rates by 75bp, bringing the deposit facility interest rate to 1.5% and the main refinancing rate to 2%. Contrary to the rate hike decisions in July and September, the size of today's rate hike seems to have been uncontested and broadly supported by all ECB members. Next to the expected rate hike, the ECB also announced changes to the current Targeted-Long-Term-Refinancing Operations (TLTRO), in terms of the applied interest rate and earlier repayment dates. Also, the ECB decided to set the remuneration of minimum reserves at the ECB's deposit facility rate. More details will be released after the press conference.

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*The sharpest and most aggressive hiking cycle ever*

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In slightly more than three months, the ECB has now hiked interest rates by a total of 200bp. It's the sharpest and most aggressive hiking cycle ever. In the previous two hiking cycles since the start of the monetary union, it took the ECB at least 18 months to hike rates by a total of 200bp.

Today's rate hike provides further evidence of the extreme paradigm change at the ECB. A year ago, ECB president Christine Lagarde still said at a press conference that "the lady is not tapering". Now, the ECB has conducted the most aggressive rate hikes in its history, despite a war in Europe, little signs of an overheating economy but rather indications of a looming recession and record high inflation, which is mainly driven by high energy and commodity prices. A couple of years ago, the same ECB but different main characters might have decided differently. The current ECB, however, has woken up very late to the fact that even if inflation is driven by supply-side factors, too high inflation for too long can damage a central bank's credibility and plant the seeds for unwarranted second-round effects.

At the current juncture of a looming recession and high uncertainty, normalising monetary policy is one thing but moving into restrictive territory is another thing. With today's rate hike, the ECB has come very close to the point at which normal could become restrictive. At the press conference starting at 2.45pm CET, ECB president Christine Lagarde might provide the first insights into how far the ECB is still willing to go.

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